2010 Special Forces Pension Plan Annual Report

special forces
pension plan

2010 SFPP Annual Report

Table of Contents

Governance Statement

This is the Governance Statement of the Special Forces Pension Plan Board

management of SFPP

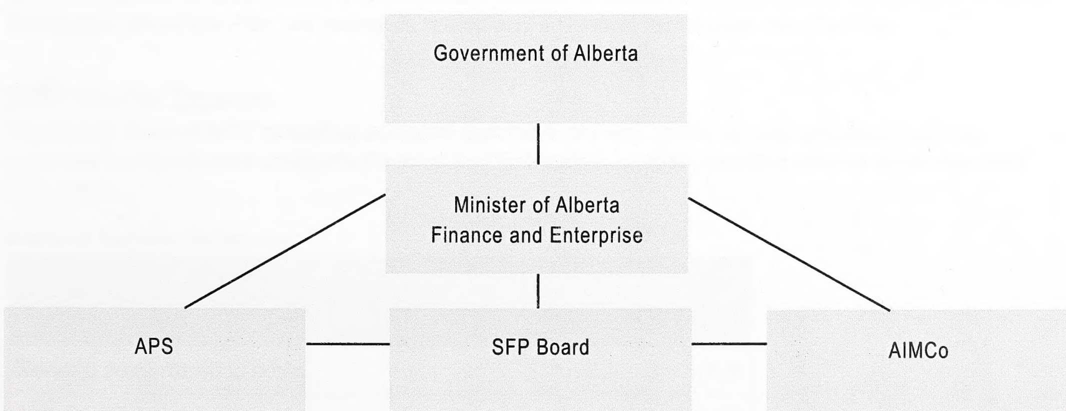
The rules governing the Special Forces Pension Plan (SFPP) are found in the *Public Sector Pension Plans Act and Regulations*. The Minister of Alberta Finance and Enterprise (the Minister) holds the assets of the Plan in trust and is responsible in legislation for the administration of the Plan and the investment management of its assets.

The SFP Board (the Board) has seven members (three employer nominees, three employee nominees and one person nominated by the Government of Alberta) that are appointed by the Lieutenant Governor in Council. The Board is charged with a number of legislated responsibilities, including arranging actuarial valuations, recommending plan rule changes, setting contribution rates based on the actuary's recommendations, setting contribution rates to the Indexing Fund for post-1991 Cost-of-Living Adjustments (COLA), providing general guidelines on plan administration, and setting an investment policy for the Plan's assets.

The Minister has delegated the administration of the Plan to Alberta Pensions Services Corporation (APS), which is a provincial crown corporation governed by a board of directors, with representatives from the private sector, pension boards and the Government of Alberta. The APS provides services to members, pensioners and employers and is responsible for the day-to-day administration of SFPP.

Alberta Investment Management Corporation (AIMCo), a provincial crown corporation, manages and invests the assets on behalf of the Minister, and the Board.

The Auditor General of Alberta conducts an independent audit of the financial statements of SFPP to ensure they are presented fairly in all material aspects and that they are in accordance with Canadian generally accepted accounting principles. The Auditor General's office provides a report to the Board identifying any significant findings arising from the audit and other matters they believe should be brought to the Board's attention.



Administration Report

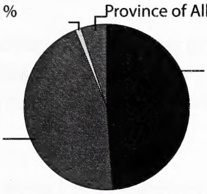
The Special Forces Pension Plan (SFPP) Administration Report is prepared by Alberta Pensions Services Corporation (APS), administrators of SFPP

Alberta Pensions Services Corporation (APS) provides valued pensions services (as directed under a Pension Services Agreement with the Minister of Finance and Enterprise) on behalf of Special Forces Pension Plan (SFPP) members, pensioners, employers and plan governors. Services include:

- Contributions management
- Member, pensioner and employer information management
- Member, pensioner and employer communications
- Benefit calculations
- Benefit disbursements
- Policy development and implementation
- Compliance, regulatory and plan financial reporting

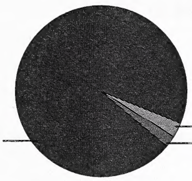
Contributions and transfers to SFPP

In 2010, total contributions and transfers to SFPP were $88 million.



Payments from SFPP

In 2010, total payments from SFPP were $81 million.



SFPP Members, Pensioners and Employers

SFPP has seven employers and a total of 6,261 active and deferred members and pensioners. In 2010, 122 people joined the Plan, 44 members retired and 47 people terminated from the Plan.

SFPP Member Expenses

The Plan's share of APS' operating and plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise. In 2010, member service expenses were $1.4 million.

Member Service Expenses

	($ thousands)	
	2010	**2009**
General administration costs	$ 1, 352	$ 1,136
Actuarial fees	93	62
Total member service expenses	1,445	1,198

The member service expenses per member are $232 in 2010 and were $199 in 2009.

Cost-of-Living Adjustment (COLA) to Pensions in Pay

COLA is guaranteed at 60 per cent of the increase in the Alberta Consumer Price Index for all service accrued before January 1, 2001. Effective January 1, 2011, COLA at 30 percent of the Alberta Consumer Price Index was applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after 2000.

Initiatives in 2010

APS launched the following initiatives in 2010 to further enhance services to our valued SFPP clients:

mypensionplan Enhancements—Members can now update their beneficiary information online. They can also choose to go green and stop receiving their member annual statement in the mail. By selecting this option on the secure member website, members will receive e-mail notification when their member annual statement is available to view online. There were 249 new SFPP members registered in **mypensionplan**, as of December 31, 2010.

Employer Services—APS created new employer training programs targeted to improve year-end employer reconciliations. A comparison of the 2009 year-end reconciliations compared to an average of the previous three years shows an improvement in the number of employers submitting their information on time.

Leaves of Absence Notice of Costs—APS thoroughly reviewed the Leave of Absence Notice of Cost package, and incorporated both member and employer feedback. The new package contains clear and concise information on the benefits of buying back service, an option to register a decision to purchase service online and a new streamlined process to ease employers' administrative responsibilities. The new product will be available in 2011.

The Year Ahead

In 2011, APS plans to:

- perform a thorough review of the Benefit Options Package and its processes to better help members understand their options.
- redesign SFPP's website.
- provide online registration for members who require one-on-one information sessions.
- continue to work on three multi-year projects to efficiently and effectively address changes in service demand.
    - Simplifying processes – APS will streamline processes to add value and clarity for the Corporation and our valued clients, improving the quality and consistency of the pension experience.
    - Simplifying policies – This project will reduce complexity of pension plan rules and improve clarity around administrative policies. APS is committed to examining areas of pension administration and plan rules, and look for opportunities to improve understanding for members, employers and staff.
    - Simplifying systems – APS uses multiple applications to deliver its services. To be more efficient, APS needs to upgrade and unify the systems to successfully deliver on our mandate to plan boards, members and employers. With improved efficiency, APS can accommodate increases in transaction volumes over time.

For further information on SFPP or to access the **mypensionplan** site, please refer to the SFPP website at www.sfpp.ca.

Investment Report

The SFPP Investment Report is prepared by the Ministry of Finance and Enterprise with input from Alberta Investment Management Corporation (AIMCo)

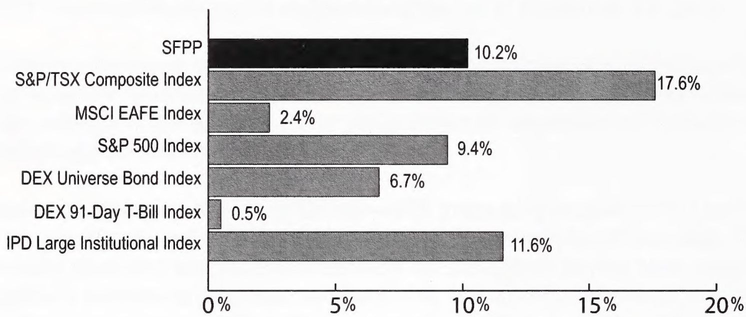
2010 year in review

The Plan recorded a gain of 10.2 per cent (or $139 million) in 2010 compared to last year's gain on investment of 13.5 per cent (or $160 million) in 2009 and a loss of 17.7 per cent (or $260 million) in 2008.

Equity and bond markets were up in 2010 despite fears of a double dip recession and concerns about the sovereign debt crisis in Europe. The U.S. Federal Reserve funds rate remained unchanged throughout the year at a historic low of 0.25 per cent. In Canada, the target overnight rate increased to 1.0 per cent from a record low of 0.25 per cent at the beginning of the year. Oil prices remained relatively stable throughout the year increasing from approximately $80 U.S. per barrel to $89 U.S. per barrel at the end of the year.

The following chart summarizes the market returns from various indexes around the world and the return of SFPP.

Returns for Major Markets and SFPP (in Canadian dollars)



The Canadian stock market represented by the Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index increased by 17.6 per cent in 2010 compared to a gain of 35.1 per cent in 2009.

The value of the Plan's non-Canadian investment portfolio is exposed to foreign currency risk. When the Canadian dollar strengthens against a foreign currency the fair value of the Plan's investments in that currency decline when translated into Canadian dollars. At December 31, 2010, one U.S. dollar purchased 99 cents Canadian compared to $1.05 Canadian at the beginning of the year. As a result of the stronger Canadian dollar, U.S. dollar investments decreased in value over the year when translated into Canadian dollars resulting in lower foreign equity returns.

The S&P 500 Index, which tracks the performance of the top 500 American companies, increased by 15.1 per cent in U.S. dollars in 2010, compared to a gain of 26.5 per cent in 2009. When translated into Canadian dollars, the Index gained 9.4 per cent in 2010 compared to a gain of 8.1 per cent in 2009.

Equity markets outside of North America, the Morgan Stanley Capital International Index for Europe, Australasia, and the Far East (MSCI EAFE) Index gained 2.4 per cent in Canadian dollars compared to a gain of 12.6 per cent in 2009.

The bond market represented by the DEX Universe Bond Index posted a gain of 6.7 per cent in 2010 compared to an increase of 5.4 per cent in 2009.

The Canadian real estate market, represented by the IPD Large Institutional All Property Index gained 11.6 per cent in 2010 compared to a loss of 0.1 per cent in 2009.

statement of investment policies and goals (*sip&g*)

Plan assets are invested for the benefit of the Plan's beneficiaries in accordance with the Board's *SIP&G*. The *SIP&G* is reviewed and updated annually by the Board. It sets out the governing investment principles and guidelines, giving particular consideration to the Plan's provisions, characteristics and financial obligations and the Board's capital market expectations. It also defines the management structure and monitoring procedures.

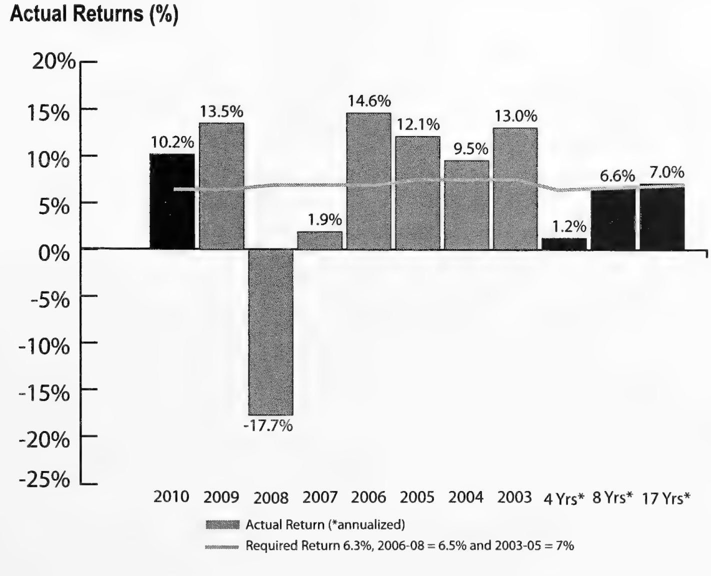
investment management services

Alberta Investment Management Corporation (AIMCo) is a provincial corporation of Alberta Finance and Enterprise. It manages and invests the assets of the Plan on behalf of the Minister and the Board. AIMCo invests SFPP's assets for the benefit of its members, subject to legislation and the investment policies approved by the Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge and reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

long-term investment objective (funding)

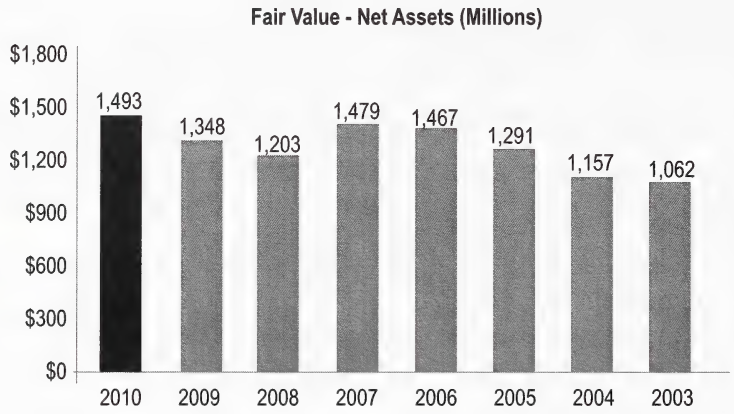
The required long-term average annual return from the Plan's investments is 6.3 per cent. This includes an expectation of earning 4.0 per cent above the forecast annual rate of inflation currently assumed to be 2.3 per cent.

The chart below compares the SFPP's overall investment returns over one year, four years, eight years and seventeen years against the long-term investment return of 6.3 per cent. In six of the last eight years, the Plan's annual return exceeded the required long-term expected investment return. Over eight years, the Plan's annualized return of 6.6 per cent was greater than the long-term expected return of 6.3 per cent by 0.3 per cent. Over seventeen years, the Plan's annualized return of 7.0 per cent was greater than the Plan's expected long-term return of 6.3 per cent by 0.7 per cent.



fair value of plan's net assets

At December 31, 2010, the fair value of the Plan's net assets increased to $1.493 billion, up $145 million, from $1.348 billion at the end of the previous year after taking into account the investment income of $139 million and the excess contributions received from employees and employers over pension benefits paid of $6 million.



board activities

The Board has put in place a number of measures to ensure proper governance of the Plan's investments. Along with reviewing the *SIP&G* annually, the Board evaluates the investment management structure periodically and monitors the performance of the investment portfolio and compliance with policies quarterly. Board members seek to expand their knowledge of investment issues and trends through attendance at seminars, presentations from advisors and reviewing published industry research.

The Board monitors the services provided to the Plan by AIMCo. Services provided and charges for those services including performance standards are set out in the *Investment Management Agreement* between AIMCo and the Board.

The Board conducts detailed asset-liability modeling studies to identify the best asset mix for the Plan taking into account the nature of the Plan's benefit structure, financial assets and the most up-to-date expectations for the financial markets. The Board then reviews the fund objectives, taking into consideration the studies' recommendations, and will make any appropriate changes to the *SIP&G.*

asset mix

For 2010, the policy asset mix for public and private equities is 57 per cent, money market and fixed income securities 27 per cent and inflation sensitive and alternative investments 16 per cent.

The Plan's inflation sensitive and alternative investment portfolio includes real return bonds, real estate, infrastructure and timberland investments. They are a relatively illiquid asset classes, and require time to build and exit investments. Both infrastructure and timberland investments are structured to provide high current income. Global private equity investments include primarily merchant banking investments. The merchant banking sector is involved in transactions such as expansion capital, acquisition financings, management buyouts, family succession, turnaround financings, project financings and leverage reductions. Infrastructure investments include projects that are structured to provide high current income. Infrastructure projects include transportation/logistics (e.g. toll roads, airports, ports and rail), power/energy (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water and natural gas network). The timberland investment represents an interest in a limited partnership that holds forestry land and land held for better use in the Province of British Columbia and a smaller investment outside of Canada.

The table below shows the policy asset mix benchmark and range for each class of investments held in the Plan compared to the actual asset mix for 2010 and the previous year.

Asset Class	Policy Benchmark	Policy Range Minimum	Policy Range Maximum	Actual 2010	Actual 2009
	%	%	%	%	%
Money Market	1.0	0.0	10.0	1.1	1.4
Fixed income	**26.0**	**18.0**	**38.0**	**26.1**	**25.6**
Universe bonds		8.0	10.0	8.6	7.5
Long government bonds		10.0	20.0	13.4	13.8
Private mortgages		0.0	5.0	4.1	4.3
Equities	**57.0**	**38.0**	**78.0**	**57.6**	**58.2**
Canadian		12.0	22.0	18.2	19.2
Global		26.0	46.0	32.7	34.7
Emerging markets		0.0	5.0	3.7	2.5
Private Equities		0.0	8.0	3.0	1.8
Inflation sensitive	**16.0**	**4.0**	**30.0**	**15.2**	**14.8**
Real return bonds		0.0	7.0	5.5	5.5
Real estate		4.0	10.0	5.7	5.4
Infrastructure		0.0	8.0	3.4	3.3
Timberland		0.0	5.0	0.6	0.6
Grand Total	**100.0**			**100.0**	**100.0**

sfpp investment results in relation to the benchmarks

To evaluate performance and measure the value added by the investment managers from their active investment decisions, such as security selection, the actual investment results are compared to the investment policy benchmark. The benchmark return represents what could reasonably be earned without active management if invested in the market indices in proportion to the policy asset mix approved by the Board. Investment managers strive to earn more than market returns by over or underweighting specific investments in relation to the indices. The Plan's investment policy benchmark is based on the long-term asset mix weightings of the portfolio invested in the following indices: *DEX 91-Day T-Bill Index, DEX Universe Bond Index, DEX Long Term All Government Bond Index, DEX Real Return Bond Index, S&P/TSX Composite Index, MSCI All Country World Index, IPD Large Institutional All Property Index*

The performance of AIMCo is reviewed against the policy benchmark to measure the effectiveness of its decisions. Performance is reviewed quarterly, with an emphasis on four-year returns.

In 2010, the Plan's overall gain of 10.2 per cent from its investments was 0.3 per cent less than the policy benchmark gain of 10.5 per cent. Over four years, the Plan's investments gained 1.2 per cent per year, 0.9 per cent less than the policy benchmark return of 2.1 per cent. Over an eight-year period, the Plan returned 6.6 per cent per year, 0.1 per cent less than the policy benchmark return of 6.7 per cent. Over seventeen years, the Plan earned 7.0 per cent per year, 0.1 per cent less than the policy benchmark return of 7.1 per cent.

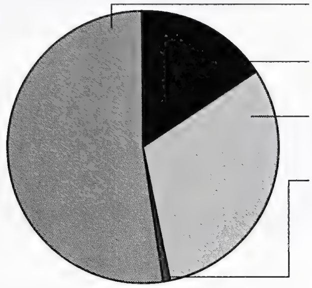
The table below compares the actual returns from the Plan's investments against the benchmark index returns.

Table of Investment Returns[1] (Returns provided by AIMCo on February 4, 2011)	Annual Returns				Annualized Returns	
	2010 %	2009 %	2008 %	2007 %	4 yr %	8 yr %
		Restated (1)				
OVERALL ACTUAL RETURN	**10.2**	**13.5**	**(17.7)**	**1.9**	**1.2**	**6.6**
Policy Return (2)	*10.5*	*13.5*	*(14.3)*	*1.1*	*2.1*	*6.7*
Consumer Price Index (3)	*2.0*	*1.0*	*2.0*	*2.4*	*1.8*	*1.8*
Money market						
Short-term Fixed Income	**1.0**	**1.6**	**4.1**	**8.2**	**3.7**	**3.4**
DEX 91-Day T-Bill Index	*0.5*	*0.6*	*3.3*	*4.4*	*2.2*	*2.6*
Fixed income						
Public Bonds	**9.5**	**7.8**	**(2.3)**	**1.6**	**4.1**	**5.4**
Private Mortgages	**10.1**	**3.6**	**8.1**	**3.7**	**6.4**	**6.9**
Public Bonds and Mortgages	**9.7**	**6.4**	**0.4**	**4.9**	**4.6**	**5.7**
DEX Universe Bond Index	*6.7*	*5.4*	*6.4*	*3.7*	*5.6*	*5.8*
Long-term Government Bonds	**12.9**	**6.1**	**(0.8)**	**2.5**	**5.0**	**n/a**
DEX Long-term All Government Bond Index	*12.1*	*1.2*	*6.2*	*4.4*	*5.9*	*n/a*
Equities						
Canadian Equities	**18.6**	**36.8**	**(34.9)**	**9.9**	**3.8**	**12.1**
S&P/TSX Composite Index (4)	*17.6*	*36.8*	*(34.5)*	*8.9*	*3.5*	*11.8*
Foreign Equities	**6.8**	**15.3**	**(30.6)**	**(6.5)**	**(5.5)**	**2.8**
MSCI All Country World Index (5)	*7.1*	*11.9*	*(25.6)*	*(8.3)*	*(4.9)*	*2.9*
Private Equities (1)	**4.9**	**(3.3)**	**(7.2)**	**n/a**	**(10.7)**	**n/a**
MSCI All Country World Index (6)	*7.1*	*15.9*	*10.0*	*n/a*	*8.3*	*n/a*
Inflation Sensitive						
Real estate	**12.1**	**(7.3)**	**5.4**	**20.8**	**7.3**	**12.3**
IPD Large Institutional All Property Index	*11.6*	*(0.1)*	*3.1*	*16.0*	*7.5*	*11.0*
Real Return Bonds	**11.0**	**13.4**	**1.0**	**1.7**	**6.6**	**4.8**
DEX Real Return Bond Index	*11.1*	*14.5*	*0.4*	*1.6*	*6.7*	*8.6*
Infrastructure (1)	**7.4**	**3.3**	**10.0**	**12.4**	**8.2**	**n/a**
DEX Real Return Bond Index (7)	*11.1*	*11.7*	*8.0*	*8.4*	*9.8*	*n/a*
Timberland (1)	**(0.8)**	**(7.3)**	**(8.7)**	**59.0**	**7.5**	**n/a**
DEX Real Return Bond Index (8)	*11.1*	*10.6*	*6.0*	*6.4*	*8.5*	*n/a*

(1) Any changes to returns subsequent to February 4, 2011 will be reflected in the next reporting period. The overall actual return for 2009 has been increased from 13.3 per cent to 13.5 per cent resulting from an increase in estimated 2009 returns for private equities (-8.0 per cent to -3.3 per cent), infrastructure (2.0 per cent to 3.3 per cent) and timberland (-8.8 per cent to -7.3 per cent).
(2) The policy benchmark is a product of the weighted average policy sector weights and sector returns.
(3) The Consumer Price Index (CPI) on a one month time lag.
(4) Prior to July 1, 2009 the combined S&P/TSX Capped Composite Index and Nesbitt Burns Small Cap Index.
(5) Prior to July 1, 2009 the combined S&P 500 Index, MSCI EAFE Index and Russell 2500 Index.
(6) Prior to July 1, 2009 the benchmark was the CPI plus 8 per cent.
(7) Prior to July 1, 2009 the benchmark was the CPI plus 6 per cent.
(8) Prior to July 1, 2009 the benchmark was the CPI plus 4 per cent.

At December 31, 2010, money market and fixed income securities totaled 27.2 per cent or $404 million, up from 27.0 per cent or $363 million at the end of the previous year. Money market securities made up 1.1 per cent of the total investment portfolio while fixed income securities comprised 26.1 per cent. The Plan's investment in fixed income securities consisted of investments in AIMCo's Canadian Long-Term Government Bond Pool, Universe Fixed Income Pool and Private Mortgage Pool.

Summary of Fixed Income Holdings (by pooled fund)



Pooled Fund Investments (by Issuer) compared to Benchmark Index

Issuer (in per cent)	Canadian Long-term Government Bond Pool	*Benchmark DEX LT All Government Bond Index*	Private Mortgage Pool	Universe Fixed Income Pool	*Benchmark DEX Universe Bond Index*
Federal	**10**	*41*	-	**12**	*46*
Provincial	**71**	*58*	**3**	**23**	*26*
Municipal	**4**	*1*	-	**1**	*1*
Corporate	**15**	-	**97**	**59**	*27*
Under 1 year	-	-	-	**5**	-
	100	*100*	**100**	**100**	*100*

The actual return from the Plan's money market investments in cash and short-term securities was 1.0 per cent in 2010, compared to the benchmark, the DEX 91-Day T-Bill Index, return of 0.5 per cent.

Short Term Fixed Income	Actual Return %	Benchmark Index* %	Net Value Added from Active Management %
One Year	1.0	0.5	0.5
Four years (annualized)	3.7	2.2	1.5

*DEX 91-Day T-Bill Index

In 2010 the actual gain from the Plan's investment in AIMCo's Canadian Long-Term Government Bond Pool (Public Long Bonds) was 12.9 per cent, 0.8 per cent better than the benchmark gain of 12.1 per cent from the DEX Long-term All Government Bond Index.

Public Long Bonds	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management
One Year	12.9	12.1	0.8
Four years (annualized)	5.0	5.9	(0.9)

*DEX Long-term All Government Bond Index

The combined actual gain from the Plan's investments in AIMCo's Universe Fixed Income Pool (Public Bonds) and Private Mortgage Pool was 9.7 per cent in 2010, 3.0 per cent better than the benchmark gain of 6.7 per cent from the DEX Universe Bond Index.

Public Bonds and Private Mortgages	Actual Return %	Benchmark Index* %	Net Value Added (Lost) from Active Management %
One Year	9.7	6.7	3.0
Four years (annualized)	4.6	5.6	(1.0)

*DEX Universe Bond Index

Equities

canadian public equity investments

At December 31, 2010, Canadian public equities represented 18.2 per cent of SFPP's total investments or $271 million compared to 19.2 per cent or $258 million at the end of the previous year. Most of the Canadian equity portfolio is held in AIMCo's Canadian Equities Master Pool. The Pool includes directly held investments in Canadian public companies and structured equity products which replicate Canadian public equity investments using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX). Directly held interest bearing securities support the notional value of index swaps and futures contracts.

Canadian Equities Master Pool Industry Exposure Relative to Benchmark December 31, 2010 Sector	Benchmark TSX Composite Index %	Over (Under) Benchmark %
Consumer discretionary	4.5	2.0
Consumer staples	2.5	3.0
Energy	26.6	(0.6)
Financials	27.9	(1.7)
Health Care	0.8	0.0
Industrials	5.5	0.1
Information technology	2.4	0.8
Materials	24.1	(1.3)
Telecommunications	4.0	1.0
Utilities	1.7	1.7
	100.0	

The actual gain from Canadian equity investments over the year was 18.6 per cent, 1.0 per cent greater than benchmark gain of 17.6 per cent.

Canadian Equities	Actual Return %	Benchmark Index* %	Net Value Added from Active Management %
One Year	18.6	17.6	1.0
Four years (annualized)	3.8	3.5	0.3

*S&P/TSX Composite Index. Prior to July 1, 2009, S&P/TSX Capped Composite Index and BMO Small Cap Index.

foreign equities

At December 31, 2010, foreign equities comprised 36.4 per cent of total SFPP investments or $542 million, down from 37.2 per cent or $500 million at the end of the previous year. Most of the Plan's foreign public equities portfolio is included in AIMCo's Global Equities Master Pool (81 per cent) followed by investments in the Portable Alpha U.S. Pool (7 per cent) and the Emerging Markets Equity Pool (10 per cent) and other equity allocations (2 per cent).

The Plan's actual gain from foreign equity investments in 2010 was 6.8 per cent, 0.3 per cent less than the benchmark gain of 7.1 per cent in Canadian dollars.

Foreign Equities	Actual Return %	Benchmark Index* %	Net Value Lost from Active Management %
One Year	6.8	7.1	(0.3)
Four years (annualized)	(5.5)	(4.9)	(0.6)

*MSCI All Country World Index (ACWI). Prior to July 1, 2009, combined S&P500, Russell 2500 and MSCI EAFE Indices.

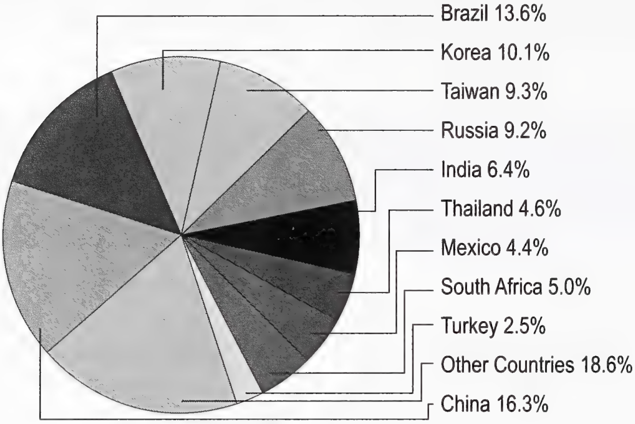
The Global Equities Master Pool includes exposure to publicly traded securities in the U.S, Europe, Australasia and the Far East (EAFE), Emerging Markets and Canada. The global portfolio is managed using directly held securities and structured equity index swaps and futures contracts. The Portable Alpha U.S Pool provides value added exposure to hedge funds. The Plan's global equities component of foreign equities gained 6.3 per cent in 2010 and 4.4 per cent over four years.

Global Equities Master Pool Industry Exposure Relative to Benchmark December 31, 2010 Sector	Benchmark MSCI World Total Return Index %	Over (Under) Benchmark %
Consumer discretionary	10.4	(1.4)
Consumer staples	9.8	4.6
Energy	11.0	(1.8)
Financials	20.1	(0.1)
Health Care	9.3	(0.6)
Industrials	11.3	6.6
Information technology	11.7	(1.0)
Materials	8.3	(2.1)
Telecommunications	4.2	(0.7)
Utilities	3.9	(0.8)
	100.0	

Global Equities Master Pool Relative Regional Exposure to Benchmark December 31, 2010 Region	Benchmark MSCI World Total Return Index %	Over (Under) Benchmark %
United States	49.1	1.8
Europe, Australasia & the Far East	45.5	0.7
Emerging markets	0.0	(0.3)
Canada	5.4	0.6
	100.0	

The Emerging Market Equity Pool is actively managed and includes securities in economies which are in the early stages of development and whose market has sufficient size and liquidity and is receptive to foreign investment. Major emerging markets include countries like China, Brazil, Korea, Taiwan, Russia and India. The Plan's emerging markets component of foreign equities gained 14.4 per cent in 2010 and 2.8 per cent over four years.

Top Ten Countries in Emerging Markets Pool



global private equities

At December 31, 2010, the Plan's investment in AIMCo's global private equity pools comprised 3.0 per cent of the Plan's total investment portfolio, or $45 million, up from 1.8 per cent or $25 million the previous year. The portfolio includes investments in institutionally sponsored international private equity pools managed by experienced external investment advisors with proven track records. Private equities gained 4.9 per cent in 2010, 2.2 per cent less than the benchmark gain of 7.1 per cent.

Private Equities	Actual Return %	Benchmark Index* %	Net Value Lost from Active Management %
One Year	4.9	7.1	(2.2)
Four years (annualized)	(10.7)	8.3	(19.0)

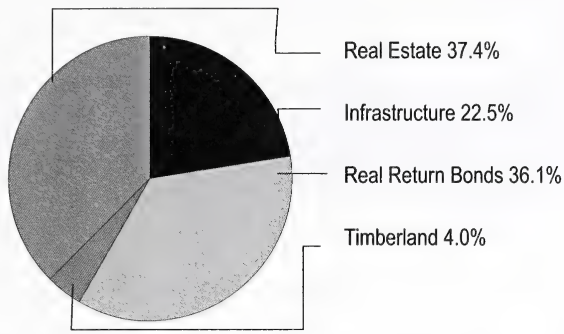
*MSCI All Country World Index (ACWI). Prior to July 1, 2009, CPI plus 8%.

Investment Report

inflation sensitive

At December 31, 2010, the Plan's inflation sensitive portfolio comprised 15.2 per cent of total investments or $227 million up from 14.8 per cent or $199 million the previous year. The inflation sensitive portfolio consists of real estate, real return bonds and infrastructure.

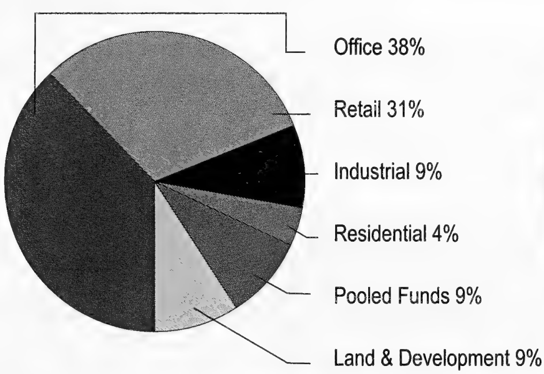
Inflation Sensitive Investments



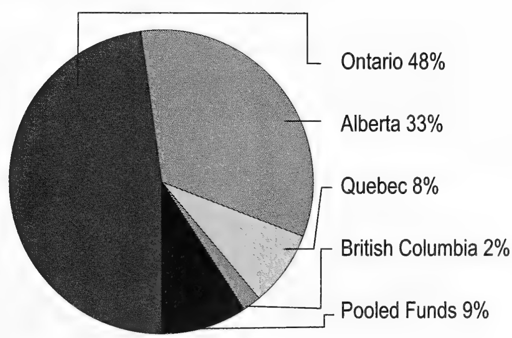
real estate

At December 31, 2010, the Plan's Canadian and foreign real estate portfolio comprised 5.7 per cent or $85 million of the Plan's total investment portfolio up from 5.4 per cent or $73 million the previous year. Most of the Plan's real estate investment is held in AIMCo's Canadian Private Real Estate Pool (98.6 per cent) with 1.4 per cent held in the Foreign Private Real Estate Pool. Investments in the Canadian Private Real Estate Pool are primarily a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary, Edmonton, and Vancouver. The focus is on quality properties, featuring strong locations and tenants.

Private Real Estate Pool (by Sector)



Private Real Estate Pool (by Province)



Top Five Holdings in Canadian Private Real Estate Pool as at December 31, 2010

Property	Location	Sector
Yorkdale Shopping Centre	Toronto, Ontario	Retail
Square One Shopping Centre	Mississauga, Ontario	Retail
Place Ville Marie	Montreal, Quebec	Office
Scarborough Town Centre	Toronto, Ontario	Retail
Bow Valley Square	Calgary, Alberta	Office

The Plan's actual gain from real estate investments in 2010 was 12.1 per cent, 0.5 per cent more than the benchmark gain of 11.6 per cent.

Private Equities	Actual Return %	Benchmark Index* %	Net Value Lost from Active Management %
One Year	12.1	11.6	0.5
Four years (annualized)	7.3	7.5	(0.2)

*IPD Large Institutional All Property Index.

real return bonds

At December 31, 2010 real return bonds comprised $82 million or 5.5 per cent of the Plan's total investment portfolio compared to $73 million or 5.5 per cent the previous year. The Plan's investment is held in AIMCo's Real Return Bond Pool. The Pool includes inflation-linked fixed income instruments designed to generate a specified real rate of return (return achieved after adjustments for inflation).

In 2010, real rate of return bonds gained 11.0 per cent, 0.1 per cent below the policy benchmark gain of 11.1 per cent.

Real Return Bonds	Actual Return %	Benchmark Index* %	Net Value Lost from Active Management %
One Year	11.0	11.1	(0.1)
Four years (annualized)	6.6	6.7	(0.1)

*DEX Real Return Bond Index.

infrastructure

At December 31, 2010, infrastructure investments comprised 3.4 per cent of the Plan's total investment portfolio or $51 million up from 3.3 per cent or $44 million the previous year. The Plan's infrastructure investments are held in AIMCo's private income pools which include investment projects that provide attractive returns plus inflation sensitivity with a long investment horizon. In 2010, infrastructure investments returned 7.4 per cent, 3.7 per cent less than the benchmark of 11.1 per cent.

Infrastructure	Actual Return %	Benchmark Index* %	Net Value Lost from Active Management %
One Year	7.4	11.1	(3.7)
Four years (annualized)	8.2	9.8	(1.6)

*DEX Real Return Bond Index. Prior to July 1, 2009, CPI plus 6%.

timberland

At December 31, 2010, timberland investments comprised 0.6 per cent of the Plan's total investment portfolio or $9 million compared to 0.6 per cent or $8 million the previous year. Timberland includes investments in forestry land in Canada and globally. The Plan's investment in timberland is held through AIMCo's Timberland Pool which includes an interest in timber and related land located in the Province of British Columbia. In 2010, timberland investments lost 0.8 per cent, 11.9 per cent less than the benchmark gain of 11.1 per cent.

timberland investments	Actual Return %	Benchmark Index* %	Net Value Lost from Active Management %
One Year	(0.8)	11.1	(11.9)
Four years (annualized)	7.5	8.5	(1.0)

*DEX Real Return Bond Index. Prior to July 1, 2009, CPI plus 4%.

risk management system

The Board accepts that in order to meet the return objectives of the Plan, the Board must take on risk in the assets in which it invests. The Board invests in a diverse set of asset types to help improve the likelihood of achieving its desired results for a given level of risk.

Investment risk management is a central thesis for our investment manager, AIMCo. AIMCo seeks to measure and monitor both historic and possible future risks, allocating risk as a scarce resource to the most promising investment opportunities. AIMCo maintains a quantitative investment risk system designed to operate across all asset classes and a variety of risk types such as market risk, currency risk, and concentration risk.

As the ultimate risk to a pension plan is not being able to meet pension obligations, the Board monitors the risk of the Plan's liabilities in relation to the investment assets. AIMCo will model the risk of both assets and theoretical liabilities and report to the Board on a quarterly basis.

proxy voting

The Board considers proxy voting to be a key element of responsible investing and that thoughtful voting is a contributor to optimizing the long term value of investments. We entrust the proxy voting function to AIMCo, our primary service provider. Research and proxy voting have been outsourced by AIMCo to an independent adviser that specializes in providing proxy-related services to institutional investors. While AIMCo may review and utilize the recommendations of the research provider in making proxy voting decisions, they are in no way obligated to follow such recommendations.

AIMCo believes that good governance enhances long term shareholder value and demonstrates that belief as a member of the Canadian Coalition for Good Governance. Membership assists in the monitoring of dissenting opinions from within the organization and peers thereby leading to enriched decisions.

Financial Statements

The SFPP Financial Statements are prepared by the Ministry of Finance and Enterprise

SPECIAL FORCES PENSION PLAN
Financial Statements
Year Ended December 31, 2010

Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the Minister of Alberta Finance and Enterprise and the Special Forces Pension Board

Report on the Financial Statements

I have audited the accompanying financial statements of the Special Forces Pension Plan, which comprise the statement of net assets available for benefits and liability for accrued benefits as at December 31, 2010, and the statements of changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audit is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the net assets available for benefits and liability for accrued benefits of the Special Forces Pension Plan as at December 31, 2010, and the changes in net assets available for benefits, changes in liability for accrued benefits and changes in deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

<Original signed by Merwan N. Saher, CA>

Auditor General

May 9, 2011

Edmonton, Alberta

Financial Statements

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2010

	($ thousands) 2010	2009
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,488,917	$ 1,344,316
Contributions receivable (Note 6)	4,643	3,597
Accrued investment income and accounts receivable	18	190
	1,493,578	1,348,103
Liabilities		
Accounts payable	126	47
Liability for investment purchases	90	375
	216	422
Net assets available for benefits	1,493,362	1,347,681
Liability for Accrued Benefits		
Actuarial value of accrued benefits (Note 7)		
Plan Fund	2,044,927	1,700,948
Indexing Fund	29,132	21,660
	2,074,059	1,722,608
Deficiency at end of year		
Plan Fund (Note 8) *	$ (580,697)	$ (374,927)

* The Plan Fund deficiency is comprised of a pre-1992 deficiency of $264,778 (2009: $214,456) and a post-1991 deficiency of $315,919 (2009: $160,471).

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2010

($ thousands)

	2010			2009
	Plan Fund	Indexing Fund	Total	Total
Increase in assets				
Net investment income (Note 9)				
Investment income	$ 141,222	$ 2,561	$ 143,783	$ 164,986
Investment expenses	(4,819)	(60)	(4,879)	(4,793)
	136,403	2,501	138,904	160,193
Contributions (Note 11)	82,669	4,971	87,640	66,244
	219,072	7,472	226,544	226,437
Decrease in assets				
Pension benefits	76,920	-	76,920	76,762
Refunds and transfers	2,498	-	2,498	3,800
Member service expenses (Note 12)	1,445	-	1,445	1,198
	80,863	-	80,863	81,760
Increase in net assets	138,209	7,472	145,681	144,677
Net assets available for benefits at beginning of year	1,326,021	21,660	1,347,681	1,203,004
Net assets available for benefits at end of year	$ 1,464,230	$ 29,132	$ 1,493,362	$ 1,347,681

The accompanying notes are part of these financial statements.

Financial Statements

Financial Statements

Statement of Changes in Liability for Accrued Benefits

Year ended December 31, 2010

($ thousands)

	2010			2009
	Pre-1992	Post-1991	Total	Total
Increase in liability for accrued benefits				
Interest accrued on opening liability for accrued benefits	$ 54,093	$ 65,103	$ 119,196	$ 108,585
Benefits earned	-	53,065	53,065	52,423
Net increase (decrease) due to actuarial assumptions changes	68,365	151,738	220,103	(96,815)
Net experience losses (Note 7b)	-	-	-	101,482
Cost-of-living indexing adjustments and interest	(4,916)	45,506	40,590	6,794
	117,542	315,412	432,954	172,469
Decrease in liability for accrued benefits				
Benefits, transfers and interest	56,725	24,778	81,503	82,831
Net increase in liability for accrued benefits	60,817	290,634	351,451	89,638
Liability for accrued benefits at beginning of year	783,958	938,650	1,722,608	1,632,970
Liability for accrued benefits at end of year (Note 7)	$ 844,775	$ 1,229,284	$ 2,074,059	$ 1,722,608

The accompanying notes are part of these financial statements.

Statement of Changes in Deficiency

Year ended December 31, 2010

	($ thousands)			
	2010			2009
	Pre-1992	Post-1991	Total	Total
Deficiency at beginning of year (Note 8)	$ (214,456)	$ (160,471)	$ (374,927)	$ (429,966)
Increase in net assets available for benefits	10,495	135,186	145,681	144,677
Net (decrease) increase in liability for accrued benefits	(60,817)	(290,634)	(351,451)	(89,638)
Deficiency at end of year (Note 16)	$ (264,778)	$ (315,919)	$ (580,697)	$ (374,927)

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2010

(All dollar amounts in thousands, except per member data and remuneration of board members)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the Public Sector Pension Plans Act, Revised Statutes of Alberta 2000, Chapter P-41, and Special Forces Pension Plan Alberta Regulation 369/93, as amended.

a) GENERAL

The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the Income Tax Act. The Plan's registration number is 0584375. The Minister of Alberta Finance and Enterprise is the legal trustee for the Plan and Alberta Finance and Enterprise is management of the Plan. The Plan is governed by the Special Forces Pension Board (the Board).

b) PLAN FUNDING

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan from the Plan Fund. Employees and employers are responsible for fully funding service after 1991.

The unfunded liability for service prior to December 31, 1991 as determined by actuarial valuation is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2010 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

The Board, in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2008. The current service contribution rates for employers are 1.1% higher than the rates of employees. The contribution rates in effect at December 31, 2010 for current service and post-1991 actuarial deficiency were 13.05% of pensionable salary for employers and 11.95% for employees. Total contribution rates, including contributions for the unfunded liability for pre-1992 service and cost of living adjustment (COLA) payments to the Plan are 14.55% of pensionable salary for employers and 13.45% for employees and 1.25% for the Province of Alberta. The contribution rates in effect January 1, 2011 remained unchanged from the rates in effect at December 31, 2010

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

Indexing Fund

Benefit payment increases for post-1991 COLA (see Note 1(i)) are funded by contributions to another fund called the Indexing Fund from employers and employees and earnings from investments. The rates in effect at December 31, 2010 were 0.75% of pensionable salary each for employers and employees. Rates are reviewed at least once every three years by the Board based on recommendations of the Plan's actuary. Subject to the Employment Pension Plans Act, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991. To date, contributions and surplus have enabled the Indexing Fund to provide 60% COLA for service from 1992 to 2000.

c) RETIREMENT BENEFITS

The Plan provides for a lifetime pension of 1.4% for each year of pensionable service based on the average salary of the five highest consecutive years, subject to the maximum benefit limit allowed under the Income Tax Act. An additional temporary bridge benefit of 0.6% for each year of pensionable service is paid to age 65 based on the average of the year's maximum pensionable earnings (as defined by the Canada Pension Plan) over the same period used to determine the highest average salary. The maximum service allowable under the Plan is 35 years.

For a member who has a pension partner at retirement, the pension plan provides that the pension will continue in the amount of 65% to the surviving pension partner for their remaining lifetime. For a member who does not have a pension partner at retirement, the pension is payable for the member's lifetime with a guarantee that the pension payment will not cease until a minimum of 60 monthly payments have been made

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service there are additional benefits for dependent minor children.

f) TERMINATION BENEFITS, REFUNDS AND TRANSFERS

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of their contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of service receive a refund of contributions and interest. The refunds are accounted for as refunds and transfers on the Statement of Changes in Net Assets Available for Benefits.

g) GUARANTEE

Payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta.

h) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

i) COST-OF-LIVING ADJUSTMENTS (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

For post-1991 service, the Board is responsible for setting COLA based on funds available in the Indexing Fund (see Note 15). COLA at 60% has been granted on service up to December 31, 2000. Effective January 1, 2011, COLA at 30% of the Alberta Consumer Price Index will be applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

The Canadian Accounting Standards Board has announced new accounting standards for pension plans effective for the 2011 year. The Plan will be adopting the new standards under CICA Section 4600 for the December 31, 2011 year and has determined that the transition will not have a significant impact on its financial statements.

Plan investments are held in pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

b) VALUATION OF INVESTMENTS

Investments are recorded in the financial statements at fair value.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

For private investments, real estate and timberland investments, the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.The

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

methods used by AIMCo to determine fair value of investments held either by the Plan or by pooled investment funds is explained in the following paragraphs:

i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equity and infrastructure investments are estimated by managers or general partners of limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

iv) The fair value of real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization and the discounted cash flows.

v) The fair value of timberland investments is appraised annually by independent third party valuators.

c) INCOME RECOGNITION

Investment income and expenses are recognized on the accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on all investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

d) FOREIGN EXCHANGE

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At the year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

e) VALUATION OF DERIVATIVE CONTRACTS

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

ii) Interest rate swaps and cross currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

f) VALUATION OF LIABILITY FOR ACCRUED BENEFITS

The value of the liability for accrued benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's liability for accrued benefits, and

ii) the estimated fair values of the Plan's private investments, absolute return strategies, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's accrued benefits are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

	($ thousands)			
	2010		2009	
	Fair Value	%	Fair Value	%
Interest-bearing securities				
Cash and short-term securities [a]	$ 15,801	1.1	$ 18,210	1.4
Bonds and mortgages [b]	387,998	26.1	345,005	25.6
	403,799	27.2	363,215	27.0
Equities				
Canadian public equities [c]	270,732	18.2	257,670	19.2
Global developed public equities [d]	486,310	32.7	466,340	34.7
Private equities [e]	45,145	3.0	24,637	1.8
Emerging markets public equities [f]	55,428	3.7	33,528	2.5
	857,615	57.6	782,175	58.2
Inflation sensitive				
Real estate [g]	85,068	5.7	73,115	5.4
Infrastructure [h]	51,293	3.4	44,220	3.3
Real return bonds [i]	81,948	5.5	73,460	5.5
Timberland [j]	9,194	0.6	8,131	0.6
	227,503	15.2	198,926	14.8
Total investments [k]	$ 1,488,917	100.0	$ 1,344,316	100.0

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the Plan's board. The Plan's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. The fair value of pool units is based on the Plan's share of the net asset value of the pooled investment funds. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

a) Cash and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund, totalling $14,880 (2009: $14,307) and short-term securities of $921 (2009: $3,903). These investments include primarily short-term and mid-term interest-bearing securities which have a maximum term to maturity of less than three years. At December 31, 2010, deposits in CCITF had a time-weighted return of 0.8% per annum (2009: 1.4% per annum).

b) The bond and mortgage portfolio includes allocations to universe bonds totalling $127,429 (2009: $105,422), long government bonds totalling $199,708 (2009: $185,926) and mortgages totalling $60,861 (2009: $57,075). The portfolio includes investments in government direct and guaranteed bonds, mortgage-backed securities, corporate bonds, asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt related derivatives and loans. At December 31, 2010, interest-bearing long bonds and mortgages had an average effective market yield of 4.5% per annum (2009: 5.3% per annum) and the following term structure based on principal amount:

under 1 year: 4% (2009: 3%); 1 to 5 years: 17% (2009: 25%); 5 to 10 years: 19% (2009: 28%); 10 to 20 years: 15% (2009: 16%); and over 20 years: 45% (2009: 28%).

c) The Plan's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Plan's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Fund's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and MSCI Emerging Markets Free Net Index. A component of the Fund's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares.

e) Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

f) Emerging markets equities consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

g) The real estate portfolio is primarily held in Canada. Real estate is held through intermediary companies, which issue common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

h) Infrastructure includes investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

i) Real return bonds are issued or guaranteed primarily by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

j) Canadian and foreign timberland investments are inflation sensitive and long-duration. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia.

k) The table on the following page provides a summary of management's estimate of the relative reliability of data or inputs used by AIMCo to measure the fair value of the Plan's investments. The measure of reliability is determined based on the following three levels

NOTE 3 INVESTMENTS CONTINUED

Level One: Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

Level Two: Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

Level Three: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level three primarily includes real estate, hedge funds, private equities, timberland, infrastructure and private debt investments. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

	($ thousands)			
Investment:	**Level one**	**Level two**	**Level three***	**Total**
Interest-bearing securities	$ -	$ 342,017	$ 61,782	$ 403,799
Equities	521,684	251,451	84,480	857,615
Inflation sensitive	-	81,948	145,555	227,503
2010 - Total Amount	**$ 521,684**	**$ 675,416**	**$ 291,817**	**$ 1,488,917**
- Percent	**35%**	**45%**	**20%**	**100%**
2009 - Total Amount	$ 454,254	$ 644,715	$ 245,347	$ 1,344,316
- Percent	34%	48%	18%	100%
Increase during the year	**$ 67,430**	**$ 30,701**	**$ 46,470**	**$ 144,601**

* Reconciliation of Level 3 Fair Value Measurements

	($ thousands)
	2010
Balance, beginning of year	$ 245,347
Investment income	25,528
Purchases of Level 3 pooled fund units	71,900
Sale of Level 3 pooled fund units	(50,958)
Balance, end of year	**$ 291,817**

Financial Statements

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with its investment activities. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Interest-bearing securities	
Money market (cash and short-term securities)	0-10%
Fixed income (bonds and mortgages)	18-38%
Equities	37-78%
Inflation sensitive	4-30%

Credit Risk

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Plan. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. Interest bearing securities primarily include investment grade bonds, notes and short-term securities and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB (medium safe investment) to AAA (safe investment with almost no counterparty credit risk).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Foreign Currency Risk

A portion of the Plan's investments are denominated in currencies other than the Canadian dollar and are therefore exposed to foreign currency risk. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. A ten percent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the value of the Plan's investments by $67 million (2009: $57 million).

Interest Rate Risk

Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. A one percent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the value of the Plan's interest bearing investments of $48 million (2009: $44 million).

Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan's investments are recorded at fair value on the statement of net assets available for benefits. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits. A ten percent decrease in equity market indices, with all other variables held constant, would result in an approximate decrease in the value of public equity investments by approximately $70 million (2009: $66 million).

Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation

Financial Statements

NOTE 5 DERIVATIVE CONTRACTS

A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. AIMCo uses various types of derivative contracts through pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk, and credit risk and for asset mix purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows with a counter-party.

Interest rate derivatives provide for the Plan to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

Equity replication derivatives provide for the Plan to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Credit risk derivatives include credit default swaps allowing the Plan to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

The following is a summary of the Plan's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of portfolio investments (Note 3) at December 31, 2010:

($ thousands)

	2010					2009	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount [a]	Net Fair Value [b]	Notional Amount [a]	Net Fair Value [b]
		%					
Equity replication derivatives	100	-	-	$683,000	$ 12,857	$408,879	$ 4,096
Interest rate derivatives	53	23	24	146,085	(1,296)	131,978	(2,914)
Foreign currency derivatives	100	-	-	208,796	29	256,229	3,174
Credit risk derivatives	47	13	40	74,954	(806)	92,802	(658)
Derivative related receivables, net					10,784		3,698
Deposits in futures margin accounts					9,098		10,872
Net derivative related investments (included in Note 3)					$ 19,882		$ 14,570

(a) The notional amounts upon which payments are based are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method of determining fair value of derivative contracts is described in Note 2 (e).

NOTE 5 DERIVATIVE CONTRACTS CONTINUED

At December 31, 2010, the notional value of equity index swap contracts includes amounts related to counterparties that are public service pension Plans and Government of Alberta endowment funds managed by AIMCo totalling $2,760 (2009: $4,403). The net fair value of these contracts totalled $540 (2008: $3).

NOTE 6 CONTRIBUTIONS RECEIVABLE

	($ thousands)	
	2010	2009
Employers	$ 2,163	$ 1,617
Employees	2,015	1,481
Province of Alberta	465	499
	$ 4,643	$ 3,597

NOTE 7 LIABILITY FOR ACCRUED BENEFITS

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Mercer (Canada) Limited and was then extrapolated to December 31, 2010.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,074,059 (2009: $1,722,608) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the investment rate of return, inflation rate and salary escalation rate. The investment rate of return is based on the average from a consistent modeled investment return, net of investment expenses, and an additive of 0.5% for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2010	2009
	%	
Investment rate of return	6.10	6.90
Inflation rate	2.25	2.25
Salary escalation rate*	3.50	3.50

* In addition to age specific merit and promotion increase assumptions.

b) NET EXPERIENCE LOSSES

Net experience losses of $nil (2009 :$101,482) arose from differences between the actuarial assumptions used in the 2008 valuation and 2010 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

Financial Statements

Financial Statements

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2010:

	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
	($ thousands)		
Inflation rate increase holding nominal investment return and salary escalation assumptions constant **	1.0	119,000	0.7
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	41,376	2.0
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	276,590	4.5

* The current service cost as a % of pensionable earnings as determined by the December 31, 2009 valuation was 21.11%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

NOTE 8 PLAN FUND DEFICIENCY

In accordance with the requirements of the Public Sector Pension Plans Act, a separate accounting is required of the unfunded liability with respect to service that was recognized as pensionable as at December 31, 1991.

The opening plan deficiency of the Pre-1992 was restated to $214,456 from $210,267 due to an increase of $4,189 resulting from a misallocation of investment expenses within the prior two years. The Post-1991 deficiency was restated from $164,660 to $160,471 due to the corresponding decrease of $4,189. There is no change to the opening deficiency of $374,927

The following table summarizes the fair value of net assets, liability for accrued benefits, and the resulting deficiency of the Plan Fund as at December 31, 2010:

($ thousands)	2010			2009
	Pre-1992	Post-1991	Total	Total
Plan Fund net assets available for benefits	$ 579,997	$ 884,233	$ 1,464,230	$ 1,326,021
Plan Fund accrued benefits	844,775	1,200,152	2,044,927	1,700,948
Plan Fund deficiency (Note 16)	$ (264,778)	$ (315,919)	$ (580,697)	$ (374,927)

As at December 31, 2010 the Indexing Fund held investments of $29,132 (2009: $21,660) with offsetting liability for accrued benefits of the same amount. The Indexing Fund deficiency is $nil (2009: $nil).

This Plan Fund deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes.

NOTE 9 NET INVESTMENT INCOME

a) INVESTMENT INCOME

The following is a summary of the Plan's investment income and expenses by asset class.

($ thousands)

	2010			2009		
	Gross Income	Expenses	Net Income	Gross Income (Loss)	Expenses	Net Income (Loss)
Foreign equities	$ 35,115	$ (1,916)	$ 33,199	$ 73,686	$ (1,741)	$ 71,945
Canadian equities	44,360	(383)	43,977	69,498	(464)	69,034
Interest-bearing securities	38,883	(494)	38,389	20,982	(621)	20,361
Real estate	9,296	(354)	8,942	(5,395)	(360)	(5,755)
Infrastructure	4,465	(555)	3,910	1,138	(521)	617
Timberland	147	(78)	69	(365)	(66)	(431)
Private equities	3,342	(1,036)	2,306	(859)	(991)	(1,850)
Real return bonds	8,175	(63)	8,112	6,301	(29)	6,272
	$ 143,783	$ (4,879)	$ 138,904	$ 164,986	$ (4,793)	$ 160,193

Income is comprised of income from investments in pooled funds managed by AIMCo.

b) INVESTMENT EXPENSES

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by Plan and its share of expenses through pool investment funds. Investment services provided directly by AIMCo are charged directly to the Plan and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

The Department of Finance and Enterprise provides investment accounting and reporting for the Plan and treasury management services. A portion of these costs is charged to the Plan. Investment expenses as a percentage of average fair value of investments assets and per member are provided below:

($ thousands)

	2010	2009
Total investment expenses	$ 4,879	$ 4,793
Average fair value of investment	$1,416,617	$1,272,009
Investment expenses as a percentage of net assets	0.34%	0.38%
Investment expenses per member	$ 783	$ 797

Financial Statements

NOTE 10 INVESTMENT PERFORMANCE (net of investment expenses)

The following is a summary of the investment performance results, net of fees, attained by the Plan.

	2010	2009 restated [d]	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Seventeen-Year Compound Annualized Return
Time-weighted rates of return [a]			*(in percent)*		
Actual gain (loss)	10.2	13.5	1.2	6.6	7.0
Policy Benchmark gain (loss) [b]	10.5	13.5	2.1	6.7	7.1
Value added (lost) by investment manager [c]	(0.3)	0.0	(0.9)	(0.1)	(0.1)

(a) The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) The policy benchmark is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

(c) In the SIP&G, the Special Forces Pension board expects that the investments held by the Plan will return approximately 100 basis points, or 1.0%, above the policy benchmark return.

(d) All investment returns are provided by AIMCo. The actual return for 2009 has been restated to conform to changes provided by AIMCo subsequent to the completion and audit of the 2009 financial statements. As a result, the overall actual return in 2009 increased from 13.3% to 13.5%, resulting from an increase in estimated fair values and returns for private equities and inflation sensitive investments.

NOTE 11 CONTRIBUTIONS

	($ thousands) 2010	2009
Current and optional service		
Employers	$ 34,643	$ 28,956
Employees	31,357	26,250
Unfunded liability		
Employers	8,462	3,528
Employees	8,462	3,528
Province of Alberta	4,083	3,644
Transfers from other plans (net)	633	338
	$ 87,640	$ 66,244

NOTE 12 MEMBER SERVICE EXPENSES

	($ thousands) 2010	2009
General administration costs	$ 1,352	$ 1,136
Actuarial fees	93	62
	$ 1,445	$ 1,198
Member service expenses per member	$ 232	$ 199

General administration costs including Plan board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of the APS's operating and plan specific costs was based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 9(b) and member service expenses per Note 12 are $6,324 (2009: $5,991) or $1,016 (2009: $996) per member and 42% (2009: 0.44%) of net assets under administration.

NOTE 14 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of the Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective April 1, 2009		
Up to 4 hours	$ 219	$ 164
4 to 8 hours	383	290
Over 8 hours	601	427

	2010	2009
During 2010, the following amounts were paid:		
Remuneration		
Chair	$ 6,443	$ 7,634
Members	23,719	33,386
Travel, training and conference expenses		
Chair	2,480	5,727
Members	19,240	28,719

NOTE 15 TRANSFER FROM THE INDEXING FUND TO THE PLAN FUND

Transfer from the Indexing Fund to the Plan Fund is approved by the Board based on the Plan actuary's advice to finance the payment of cost-of-living increases for post-1991 service by the Plan Fund (see Note 1(i)).

As at December 31, 2010, cost-of-living increases for post-1991 service from January 1, 1992 to December 31, 2000 have been granted at 60% of the increase in the Alberta Consumer Price Index.

NOTE 16 FUNDING OF ACTUARIAL DEFICIENCY

The Plan's surplus (deficiency) is determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $1,418,465 at December 31, 2010 (2009: $1,371,637).

In accordance with the Public Sector Pension Plans Act, the unfunded liability for post-1991 service as determined by actuarial funding valuation is financed by a special payment currently totalling 1.86% of pensionable salary shared equally between employees and employers until December 31, 2019. The special payment is included in the rates in effect at December 31, 2010 (see Note 1(b)).

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2010 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise, based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.